DOCUMENT RESUME

ED 440 261 CE 080 023

AUTHOR	Bernhardt, Annette
TITLE	The Future of Low-Wage Service Jobs and the Workers That Hold Them. IEE Brief No. 25.
INSTITUTION	Columbia Univ., New York, NY. Inst. on Education and the Economy.
SPONS AGENCY	William T. Grant Foundation, Washington, DC. Commission on Youth and America's Future.
ISSN	ISSN-1059-2776
PUB DATE	1999-07-00
NOTE	5p.; For full report, see CE 080 022.
CONTRACT	95-1688-95
AVAILABLE FROM	Institute on Education and the Economy, Box 174, Teachers College, Columbia University, New York, NY 10027. Tel: 212-678-3091; Fax: 212-678-3699; e-mail: iee@columbia.edu. For full text: http://www.tc.columbia.edu/~iee.
PUB TYPE	Reports - Research (143)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Adult Education, Career Development; Career Education; Career Ladders; Economic Change; Economic Status; Educational Opportunities; Employer Employee Relationship; *Employment Level; Employment Opportunities; *Employment Patterns; Employment Practices; Entry Workers; Futures (of Society); Influences; Job Training; Labor Force Development; Labor Market; *Low Income; Minimum Wage; Models; *Occupational Mobility; Professional Occupations; *Retailing; Salary Wage Differentials; *Service Occupations; Technological Advancement; Trend Analysis
IDENTIFIERS	Global Economy; *Wal Mart

ABSTRACT

The business press abounds with examples of innovative companies that have created high-quality jobs; however, low-wage, deskilled jobs filled by contingent workers are equally prevalent. More than one in six U.S. workers currently hold retail jobs. The effect of globalization of trade on the retail industry is unclear. The most significant development to date is that the retail market has, according to many analysts, become highly congested and overbuilt. The leading retail strategy is the Wal-Mart model, which includes a "low-road" human resource approach. Sales jobs are dead-end jobs, starting pay is at or near minimum wage, raises are given yearly but not guaranteed, and the low pay is exacerbated by short and uncertain work schedules and the lack of opportunity to work sufficient hours each week to produce a livable paycheck. Upward mobility in the retail sector is limited. Most retail firms choose to import educated workers rather than train incumbent workers. The problem of mobility is not limited to the retail sector. Although skilled workers in professional occupations may be able to create new career paths that preserve their opportunities, opportunities for upward mobility do not look promising for the more numerous occupations further down the ladder. (Contains 12 references.) (MN)

Reproductions supplied by EDRS are the best that can be made
from the original document.

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY
J. D'Alvia
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
1

INSTITUTE ON EDUCATION AND THE ECONOMY

IEE BRIEF

ISSN 1059 2776

Number 25 / July 1999

ED 440 261

THE FUTURE OF LOW-WAGE SERVICE JOBS AND THE WORKERS THAT HOLD THEM

Annette Bernhardt

The Link Between Firms and Inequality

Much has been written about America's shift from an industrial economy to one based on knowledge and technology. Yet for all the talk of high-tech jobs, the average worker has not seen significant gains in well-being. The 1970s brought stagnant earnings and widespread displacement of manufacturing workers. By the 1980s, the evidence documented a declining middle class and a striking rise in wage inequality. These trends continue to the present despite a strong economy and a tight labor market, prompting at least one observer to warn of an "apartheid" economy.

Thus there is an acute disconnect between the ideal of post-industrialism and the actual trends in worker welfare. While the business press abounds with examples of innovative companies that have created high-quality jobs, just as prevalent are low-wage strategies, deskilled jobs, and the substitution of contingent for full-time workers. Such variability poses critical questions about the nature of work in America and what it means to have a job and build a career. The nature of competition, the structure of workplaces, wages and attachments to employers—all look very different now than they did at the height of industrial capitalism.

There is an established literature on trends in firm strategies, most often focused on manufacturing industries. But interest has recently shifted to the service sector (where the large majority of Americans actually work) and it is not clear that the concepts and conclusions from manufacturing transfer to this setting. For example, the globalization of trade is at best a weak explanation for the stark increase in competition that has occurred in many service industries. As well, the nature of service work is inherently different from that of manufacturing, making unclear how technology will impact jobs or whether reforms such as work teams and quality circles are viable. Finally, the service sector has always had and continues to have a preponderance of low-wage, high-turnover firms, the success of which is not easily understood.

In sum, new generations of workers are entering a transformed labor market, and the wage inequality they face is not going to disappear unless explicitly addressed. This will be accomplished by a better understanding of how firms have responded to heightened competition (especially in the service sector) and the effect on job design, skill requirements, training, and wages.

This Brief is based on a series of firm case studies conducted by IEE researchers in retail trade industries (department stores, specialty stores, fast-foods, and mass discounters) as well as analyses of national datasets on wage, compensation, and employment trends. The case studies were conducted over a three-year period and entailed site visits, observations, and interviews with workers, managers, and industry representatives.

More than one in six Americans currently holds a retail job. These 21.6 million Americans make up 18 percent of the total workforce, and projections indicate that retail jobs will continue to serve as a key source of employment in the future (U.S. Department of Labor, 1998). Yet job quality in this sector is poor. In 1997, for example, 31.7 percent of the working poor held a retail job, as compared to 15.8 percent of the population as a whole (Bernstein & Hartmann, 1999). Although there is significant variation across industries, the stereotype of retail jobs generally holds true—part-time, high turnover, low wages, few benefits and few prospects for upward mobility. Thus, in the context of policy debates about how to address rising inequality, this sector affords a window on low-wage employers, the workplace strategies they use, and the future of workers without a college degree.

Upheaval in the Retail Industry

Although the globalization of trade is considered the signal economic trend of the past three decades, its impact on the retail industry is not clear. The core of service delivery is face-to-face interaction, and this means that service jobs are not "footloose." Hotel room cleaners, bank tellers, childcare workers, and sales staff must work on-site; their jobs cannot be shipped overseas. Similarly, a hotel or retailer in New Orleans does not compete with firms in Singapore, but with others in its own region. In services, the forces that govern competition, product markets, and workplace strategies are, to a significant degree, firmly rooted in the domestic sector.

It is the logic of capitalist markets that has taken the retail industry from the mom-and-pop stores of the early 1900s to the corporate-owned chains of today. The most significant development is that the retail market has matured and reached the point where many analysts see the industry as highly congested and overbuilt. In this environment, margins become smaller and competition increasingly focuses on cost reduction. The chief response has been consolidation—the growth of large firms and holding companies that can capture economies of scale and expand their share of the market by diversifying across product lines. Thus among department stores and eating and drinking places, the number of employees per firm more than doubled between 1972 and 1987 (Gallo, 1994). This trend has been driven by the emergence of two new market entrants: specialty stores that focus on a single product line, and mass discounters who use their size and tight relationships with suppliers to offer everyday low prices that are almost impossible to undercut.

Further, as in other industries, the increased power of large shareholders has contributed to rising competition focused on cost reduction. The threat of corporate takeovers imposes strict performance discipline on firms—maximize profits or be swallowed up. The focus is on short-term performance and "results-driven" restructuring that pays off immediately. Quarterly and even monthly performance by large firms translates immediately into stock-price adjustments.

The Ascent of the Wal-Mart Model

The upshot is an industry where cost has become the absolute bottom-line, where competition is intense and unceasing and where margins are razor-thin. It should come as no surprise,

CE 078023

BEST COPY AVAILABLE

therefore, that retail wages have fallen in the last thirty years as compared to the national average. Although some variation exists—workers in auto dealerships averaged $10.86 an hour in 1996, whereas those in restaurants and fast-food chains averaged $5.79—retail jobs are clearly not well-paid and benefits are hard to come by (U.S. Department of Labor, 1997). Pension coverage for full-time workers was only 34 percent in 1993, and only 62 percent of employers sponsored health plans (U.S. Department of Labor, 1995). Part-time workers have clearly become the archetype of retail employment: between 1960 and 1993, average weekly hours for non-managers fell from 38 to 28 (Gallo, 1994).

The leading retail strategy to emerge since the 1970s is the Wal-Mart model. It is characterized by an extremely efficient production process, where the operations that make up the heart of retailing—buying products from manufacturers and vendors, distributing them to stores, and selling them to customers—are increasingly streamlined and linked in one continuous just-in-time chain. Retail establishments that can do this efficiently prosper; those that cannot lose market share and can end in bankruptcy.

The core of Wal-Mart's strategy is an efficient technology driven inventory management system. Automated replenishment of stocks in the stores insures a steady supply of just the right number of products from the manufacturers. A second component is a tight relationship with suppliers, who are pressured for large discounts, help in delivery and stocking of products, product testing, and even total dedication to supplying only Wal-Mart (Nelson, 1998). And Wal-Mart has recently opened its enormous sales database so that vendors can perform their own analyses of sales patterns and customer buying habits, and tailor their products to Wal-Mart's customers. As a result, many operations previously done in-house have been off-loaded to vendors.

The third component of the Wal-Mart model is a "low-road" human resource approach. Sales jobs are dead end, starting pay is at or close to the minimum wage, and raises are given yearly but not guaranteed, with a ceiling of 25 to 30 cents an hour. Work schedules are changed constantly, and if demand is slack, workers are required to leave their shift early. Working more than 35 hours is considered a major infraction since it incurs federally-mandated overtime pay. The low pay is exacerbated by the lack of opportunity to work sufficient hours a week to produce a livable paycheck. At Wal-Mart, full time is defined as 28 or more hours a week. Thus, while two-thirds of the company's workers are said to be full-time, most are in reality working only part-time. Health benefits are available to full-timers, but they must contribute 40 percent from their own paychecks, so only about three-fourths of the employees are covered. Finally, there is no pension plan, and the much-touted profit-sharing ESOP is primarily invested in Wal-Mart stock, which has lost value in recent years (Ortega, 1995). In this context, it should not be surprising that the company has a long history of union busting and trains its managers in union-avoidance.

The Industry Follows Suit. Alternatives to the Wal-Mart model do exist in specialized niche markets. But in the main, what we see in retailing is a restructuring model based on technology and process and a deskilling of front-line service jobs. The reason is that the Wal-Mart model is highly profitable. Wal-Mart outperforms other retailers on most measures of performance and productivity; as a result, industry laggards are under enormous pressure to follow suit.

Organizational changes to heighten efficiency are evident everywhere. At times, this takes the form of centralizing and consolidating all parts of the operation; at other times, it takes the form of sub-contracting peripheral operations. Often, both are practiced within the same firm. Largely through such measures, retailers cut front-line staff by an estimated 10 to 30 percent during the 1990s (Steinhauer, 1997). Thus Wal-Mart has demonstrated that a low-road human resource strategy can be highly efficient and profitable. At least in retailing, it is hard for corporate owners to see the advantages of a "high road" human resources approach. This is especially true given that the task content of retail jobs has historically been low, segmented, and Taylorized, requiring little skill or training. Moreover, firms have made large investments in the machinery and processes surrounding these low-skill jobs. In this context, the potential gains from improving the productivity of operations far outweigh those that might be reaped from an upgrading of front-line jobs, or further training for employees—the risks and costs are lower.

This is clearly a daunting context in which to attempt a reform of job quality and wages. Nevertheless, the hope is that a high-road strategy might still be viable in the service sector. Since the core of service work requires interactions with and management of customers, the delivery and quality of the service is controlled by the worker. It would seem, then, that a human resource strategy aimed at improving the skills and input of the front-line workers could become increasingly important as a basis for competition. A cycle of low wages, little training, low morale, and high turnover can lead to customer dissatisfaction and loss of sales. Therefore, industry analysts argue, the solution is to increase worker discretion and to concentrate on quality at the service core (Schlesinger & Heskett, 1991).

Customer Service and Segmentation

Firms can compete either on the basis of cost (low prices) or quality (superior products or service). In an environment where everyone is being driven to the common denominator of low prices, and where giant discounters almost invariably win the price game, it is natural that firms will try to seek out other dimensions on which to differentiate themselves. Since the 1980s, the retail industry has given much press to the idea that quality customer service is the new route to survival in a highly competitive environment. From the glossy department stores and upscale grocers down to mall outlets and fast-food chains, managers proclaim that they have instituted workplace practices and training designed to enhance the service experience and foster customer loyalty.

In fact, however, two vastly different definitions of "quality customer service" have emerged. The first stresses personalized and in-depth service. Nordstrom's sales workers, for example, build long-term relationships with their upper-class clientele, informing them of new products and setting aside items for them. Home Depot's sales staff give detailed instructions and advice to their do-it-yourself customers.

The second definition of quality service stresses the ability to give customers fast, no-frills service and cheap products. This kind of service is aimed at customers who are pressed for time, know what they want, and shop for value (Weiss & Lummis, 1995). This is the market that Wal-Mart's efficiency-driven model serves; doing so efficiently enables the company to boast that it excels in providing customer service, even though its front-line workers do little more than run the cash register and stock shelves.

The effect on workers. These two distinct routes to competing on the basis of quality service are both productive and profitable. But the effects on workplace and job quality differ markedly, and these diverging trends have contributed to rising wage inequality and a segmentation of job quality within the retail industry. In markets for high-income customers or products requiring expert advice, multi-skilled and better-trained workers are required. In these market niches, wages and job quality are often well above average for the industry. At the Home Depot, for example, turnover is low, workers are almost all full-time with benefits, and their wages are significantly higher than the average retail employee. In addition, departments within the store are run autonomously and hourly sales associates have considerable discretion.

Clearly, none of these characteristics hold at the mass discounters, fast-food chains, or department stores that target middle and working-class customers. Part-timers are a large part of the workforce, turnover is high, and there is an increase in the numbers of temporary employees. In contrast to the front-line workers at Home Depot and Nordstrom's, sales workers have little autonomy and individualized customer service is frowned upon. It is important to understand that this market segmentation is not balanced in the retail industry. High-quality service and skilled sales jobs are evident only in specialized markets and do not represent what the majority of retail firms are practicing—the no-frills Wal-Mart model dominates.

Technology and Its Selective Impact

If the push for quality has generally not resulted in an upgrading of retail jobs, can the answer be found in technology? One of the dominant themes of recent scholarship on the post-industrial economy is that the rapid influx of new information technologies in the workplace increases skill requirements and the demand for educated workers. This theme is the motivation for much of recent training and education policy. It is also one of the leading explanations for why less-skilled workers have seen their wages decline over the last thirty years.

Technology has indeed had a profound impact on the retail industry. The just-in-time linking of all parts of the retail production chain would be impossible without electronic technologies that allow for instant transmission of stock, sales patterns, and price and product changes. Computers have also had a major impact on staff scheduling, in the past a time-consuming and inefficient process. Scheduling software finds the most efficient and least costly allocation of labor, taking into account worker availability, payroll budget, and individual skills—its advent has reduced retailers' payroll costs an average of two to ten percent.

Yet the effect of technology has been primarily on the back-end of retail operations. The actual tasks that retail workers perform have generally not been transformed. To the extent that sales workers have been affected, the most direct result has been the elimination of jobs. For example, the counting of products in stock, once done manually by a slew of workers at night, is now increasingly done automatically (e.g., when cash registers record that a product has been sold) or by fewer workers using hand-held scanners. In warehouses, increased computerization and scanning has reduced the need for skilled labor or, in some cases, eliminated the need for labor altogether.

Although technology has reduced the amount of "dead time" that retail workers spend on mundane tasks such as stocking and pricing, it has not freed workers from stress. In department stores, for example, a greater percentage of time is spent on the selling floor, but often with tougher sales goals and electronic monitoring of productivity. Even the sales workers at Nordstrom's, while well-paid, are under intense pressure to meet their sales quotas and face dismissal if performance is not up to par. A similar increase in stress is found in other retail outlets such as mass discounters and grocery stores. Here, the main front-line manifestation of new technology is the scanning cash register, which has made an already monotonous job even more so (no more price checks, no more need to memorize prices), while at the same time speeding it up considerably.

Thus, technological change has had a strong effect on productivity and is in large part responsible for the success and dominance of the Wal-Mart model of retailing. But it has not brought an up-skilling of front-line retail jobs. There is little or no evidence of the pronounced impact on task content and complexity, coupled with increased training, that is commonly associated with high technology. Thus, the hope that technology might encourage a "high road" retail strategy seems unlikely to be fulfilled in the current context.

The Prospects for Career Mobility

In sum, for the more than one in six Americans in the retail trade industry, the average job offers wages of seven dollars an hour, short and uncertain work schedules, few benefits, and monotonous tasks that are increasingly being speeded up. Nor is this situation likely to change any time soon. While new technologies lie at the center of this model, front-line jobs have mainly gone untouched, or else been automated, deskilled, and redistributed. Although alternatives to this strategy exist, on balance the Wal-Mart approach dominates and is likely to prevail in the foreseeable future.

This does not augur well for job

Institute on Education and the Economy
Box 174, Teachers College, Columbia University
New York, New York 10027
212-678-3091 Fax: (212) 678-3699
iee@columbia.edu
http://www.tc.columbia.edu/~iee
Director: Thomas R. Bailey
Managing Editor: Lisa Rothman

quality and worker welfare. One common argument given in response is that the retail sector merely serves as a temporary way-station for most workers. The image is of teenagers earning extra money, mothers wanting to get out of the house for a few hours, and retirees looking for something to occupy their time. But this picture is both misleading and outdated. A recurrent theme from our interviews and industry data is that retail workers are increasingly dependent on their jobs for their long-term livelihood. Even those working part-time are patching together several jobs and desire full-time employment.

But regardless of whether one is talking about teenagers, middle-aged fathers, or working-class women, there is the deeper question of the opportunities for upward mobility. The retail industry has one of the flattest job hierarchies in the economy. A typical Wal-Mart store has one manager, four assistant managers, and 235 non-salaried workers (Styles, 1992). This lean structure reflects the growing trend in the industry toward reduction of managerial layers, especially the lower-level supervisory jobs that in the past allowed for a career ladder of sorts. These changes place severe structural constraints on upward mobility, no matter how talented or hard-working the individual. Moreover, a new dominant practice in the industry is to hire externally when filling managerial slots, bringing in young college graduates and bypassing workers with years of tenure. Thus, for those workers without postsecondary education, there are fewer and fewer routes to upward mobility (Noyelle, 1990).

Some might advise retail workers to move up and out of the industry, but for the three-quarters of Americans who never attain a four-year college degree, this is meager advice. The core of the problem with retail and other low-wage service jobs is that the incumbents are the least educated in the labor force. Absent a truly dramatic shift in college-completion rates, the only viable route to career mobility for this population is training. This is especially true since external career ladders that may have been accessible to ex-retail workers in the past are disappearing. For example, entry-level bank teller jobs now often require more than a high school diploma.

Unfortunately, most retail firms choose to import educated workers rather than train incumbent workers. Retailers train employees an average of only seven hours, ranking the industry last among 14 business sectors. In a 1991 survey, only 9 percent of retail workers reported receiving formal company training, and only 12 percent had even received informal on-the-job training (Gallo, 1994). The training that does exist is mainly for firm-specific cash registers, and is therefore unlikely to yield transferable skills. Thus workers in this industry can expect to gain few skills that can be leveraged to move to better jobs in other industries.

The bigger picture. The problem of mobility is not limited to the retail sector; there has been an economy-wide deterioration in the extent of upward mobility. What is more, while some workers in some occupations enjoy significant wage increases over their career, there are substantially more who see minimal and even negative wage growth in real dollars. The combination of these two trends—decreasing mobility and stagnant wages—means that individuals' life chances have become more uncertain and more unequal.

In short, the rules of work and career mobility have changed, and a fundamental reorganization of work and production is underway in the American workplace. The resulting challenge to policy makers is enormously difficult. While education and training are clearly key to any solution, ultimately they will not suffice. We need to ask hard questions about the consequences of American business strategies. What happens to raises, promotions, and climbing up the ladder when employers hire externally for skilled jobs and invest less in entry-level training? How does flexible staffing and reliance on temporary, part-time, and leased workers affect opportunities to acquire a broad set of skills? What happens when low-skill jobs are removed entirely via subcontracting and outsourcing to firms that frequently pay less for the same work?

The traditional routes to upward mobility break down. Skilled workers in professional occupations may be able to create new career paths that preserve their opportunities. But for the more numerous occupations further down the ladder, such as cashiers, salespersons, and information clerks, the opportunities for upward mobility do not look promising. Without policy intervention, the likely result is a cadre of "migrant service workers" moving from one temporary front-line service job to another, learning no new skills, and achieving few wage gains with which to support their families.

This Brief was developed at the Institute on Education and the Economy (IEE), Teachers College, Columbia University. It was drawn from IEE Working Paper No. 10, which may be ordered from IEE. The research was conducted with support from the William T. Grant Foundation.

REFERENCES

Bernstein, J., & Hartmann, H. (1999). *Defining and characterizing the low-wage labor market*. Washington, DC: Urban Institute.

Gallo, F. (1994). *Profile of the retail trade sector* (Prepared for an assessment on *Technology, Jobs, and Productivity in the Service Sector*). Washington, DC: U.S. Congress, Office of Technology Assessment.

Nelson, E. (1998, October 6). Why Wal-Mart sings, "Yes, we have bananas!". *The Wall Street Journal*, p. B1.

Noyelle, T. (1990). Toward a new labor market segmentation. In T. Noyelle (Ed.), *Skills, wages, and productivity in the service economy* (pp. 212-224). San Francisco, CA: Westview.

Ortega, B. (1995, January 4). Life without Sam: What does Wal-Mart do if stock drop cuts into workers' morale? *The Wall Street Journal*, pp. A3-A4.

Schlesinger, L. A., & Heskett, J. L. (1991, Spring). Breaking the cycle of failure in services. *Sloan Management Review*, pp. 17-28.

Steinhauer, J. (1997, March 4). Whatever happened to service? *The New York Times*, p. D1.

Styles, D. (1992, September 3). The Wal-Mart way. *Arkansas Times*, pp. 15-19.

U.S. Department of Labor, Bureau of Labor Statistics. (1995). *Pension and health benefits of American workers, new findings from the 1995 CPS*.

U.S. Department of Labor, Bureau of Labor Statistics. (1997). (Unpublished tabulations from the National Current Employment Statistics).

U.S. Department of Labor, Bureau of Labor Statistics. (1998). *The 1998-99 occupational outlook handbook*. Washington, DC: U.S. Government Printing Office.

Weiss, D., & Lummis, D. (1995). *Value retailing in the 1990s: Off-pricers, factory outlets, and closeout stores*. Washington, DC: National Retail Federation.